Stable demand, steady margins positive for HUL

Brokerages bullish on FMCG major's growth outlook

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After witnessing a sharp correction on Tuesday, the Hindustan Unilever (HUL) stock bounced back on expectation of accelerating growth and steady margins in FY27 despite commodity inflation. The country's largest fast moving consumer goods (FMCG) major saw a steady top-line show even as volumes fell short of consensus estimates.

Given the management's confidence of a stronger FY27 (compared to FY26) and medium-term margin guidance in the 22.5-23.5 per cent range, brokerages are positive on the outlook for the FMCG major.

At the current price, the stock, which is down 11 per cent over the last six months, is trading at 38 times its FY28 earnings estimates.

The company posted consolidated sales growth of 10.5 per cent year-on-year (Y-o-Y) in Q1FY27, led by equal contribution of volumes and pricing at 5 per cent each.

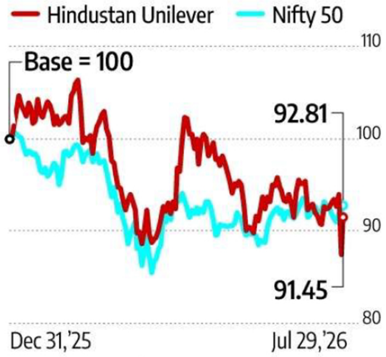
Net sales and pricing growth were the highest in the last 12-13 quarters. Among key segments, the performance of Home Care stood out with 14 per cent Y-o-Y sales growth in Q1, the highest in the last three years and was led by high single-digit volume growth.

Beauty and wellbeing also saw a double-digit Y-o-Y growth led by Hair Care and Minimalist.

The foods segment reported a healthy sales growth of 7 per cent aided by mid-single-digit volume growth. Within this, lifestyle nutrition sustained double-digit growth with Boost crossing the ₹1,000-crore mark in turnover.

While the company relaunched Horlicks Superfoods, Q1 saw good traction for the ready-to-drink segment. In the beverage space, coffee delivered double-digit growth led by volumes while premium tea posted low single-digit volume growth. What disappointed the Street was the Personal Care segment which saw a pricing-led growth of 4 per cent and volume decline as the company neutralised cost inflation with price hikes.

Moving in tandem



Sources: Bloomberg, NSE

Analysts led by Abneesh Roy of Nuvama Research point out that Personal Care remained the weakest (within the key segments) as prolonged palm oil inflation continued to pressure soap volumes, leaving growth largely pricing-led despite strong traction in Dove, Pears and bodywash.

Raw material inflation across crude-linked inputs, palm oil and tea remains elevated, limiting near-term margin expansion and necessitating further calibrated pricing, says the brokerage.

Nuvama has marginally trimmed its FY28 and FY29 earnings estimates by 2-3 per cent factoring prolonged weakness in soaps and softer Personal Care recovery (skin cleansing volumes down to low single-digit), partially offset by continued investments in growth initiatives. The brokerage has a buy rating with a target price of ₹2,820. While sales performance was good in Q1, profitability remained under pressure, with gross margins down by 80 basis points (bps) Y-o-Y due to higher input costs.

However, the margin fall at the operating level was limited to 30 bps due to control on costs, especially for advertising and promotion.

Though the management expects margin pressure to continue due to higher input costs, the demand environment remains stable with rural demand witnessing better growth than urban over the past few quarters.

JM Financial Research believes that initiatives led by the new CEO —sharper portfolio interventions, investment behind categories and intensified omni-channel execution — are in the right direction.

And, benefits are visible from acceleration in sales growth over the past few quarters.

Analysts, led by Mehul Desai of the brokerage, point out that the inflationary scenario augurs well for HUL as it accelerates share gains from unorganised/regional players.

It also has adequate levers to navigate the current volatile environment. The brokerage has upgraded the stock to "buy" from "add" with a target price of ₹2,425.